

Federal Reserve: Emergency Lending in Response to COVID-19

April 10, 2020

The coronavirus (COVID-19) has created significant economic and financial disruption. In response, the [Federal Reserve](#) (Fed) has taken a [number of actions](#) to promote economic and financial stability. This Insight covers actions taken by the Fed in its “lender of last resort” role—actions intended to provide liquidity directly to firms to ensure they have continued access to needed funding. The Fed finances this assistance by expanding its balance sheet. For information on the Fed’s monetary policy actions in response to COVID-19, see CRS Insight IN11330, *Federal Reserve: Monetary Policy Actions in Response to COVID-19*, by Marc Labonte.

Discount Window

In a March 15 announcement, the Fed [encouraged](#) banks (insured depository institutions) to borrow from the Fed’s discount window to meet their liquidity needs. This is the Fed’s traditional tool in its *lender of last resort* function. Discount window lending is negligible in normal conditions, but has surged since March. The Fed also encouraged banks to use intraday credit available through the Fed’s payment systems as a source of liquidity.

Emergency Credit Facilities

In 2008, the Fed created a series of emergency credit facilities to support liquidity in the nonbank financial system. This extended the Fed’s traditional role as lender of last resort from the banking system to the overall financial system for the first time since the Great Depression. To create these facilities, the Fed relied on its [emergency lending authority](#) (Section 13(3) of the Federal Reserve Act). This authority, amended by the Dodd-Frank Act (P.L. 111-203), places a number of restrictions on the Fed, including that the facilities can only operate in “unusual and exigent circumstances.”

Emergency authority was not used again until 2020. To date, the Fed has created nine emergency facilities—some new, and some reviving 2008 facilities—in response to COVID-19:

- On March 17, the Fed announced it would [revive](#) the commercial paper funding facility (CPFF) to purchase commercial paper, which is an important source of short-term funding for financial firms, nonfinancial firms, and asset-backed securities (ABS).

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- On March 17, the Fed announced it would [revive](#) the primary dealer credit facility (PDCF), which is akin to a discount window for primary dealers. Like banks, [primary dealers](#) are heavily reliant on short-term lending markets in their role as securities market makers. Unlike banks, they cannot access the discount window. Like the discount window, the PDCF provides short-term, fully collateralized loans to primary dealers.
- On March 19, the Fed announced it would [create](#) the Money Market Mutual Fund Liquidity Facility (MMLF), similar to a [facility](#) created to stop a [run on money markets](#) in 2008. The MMLF makes loans to financial institutions to purchase assets that money market funds are selling to meet redemptions.
- On March 23, the Fed announced two new facilities to support corporate bond markets—the [Primary Market Corporate Credit Facility](#) (PMCCF) to purchase newly issued corporate debt and the [Secondary Market Corporate Credit Facility](#) (SMCCF) to purchase existing corporate debt on secondary markets.
- On March 23, the Fed announced it would [revive](#) the Term Asset-Backed Securities Loan Facility (TALF) to make nonrecourse loans to private investors to purchase ABS backed by various nonmortgage consumer loans.
- On April 6, the Fed [announced](#) the Payroll Protection Program Lending Facility (PPPLF) to provide credit to depository institutions (e.g., banks) making loans under the CARES Act (H.R. 748/P.L. 116-136) [Payroll Protection Program](#). Because banks are not required to hold capital against these loans, this facility increases lending capacity for banks facing high demand to originate these loans. The PPP provides low-cost loans to small businesses to pay employees. These loans do not pose credit risk to the Fed because they are guaranteed by the Small Business Administration.
- On April 9, the Fed [announced](#) the Main Street Lending Program (MSLP), which lends to depository institutions to make loans to businesses with up to 10,000 employees or up to \$2.5 billion in revenues. The loans to businesses would defer principal and interest repayment for one year, and the businesses would have to make a “reasonable effort” to retain employees.
- On April 9, the Fed [announced](#) the Municipal Liquidity Facility (MLF) to purchase state and municipal debt in response to higher yields and lower liquidity in that market. The facility will only purchase debt of larger counties and cities.

Some programs were announced with an overall size limit (see **Table 1**), although in 2008, actual activity typically did not match the announced size. These facilities go beyond the scope of the 2008 facilities to assist nonfinancial businesses and states and municipalities, as well as nonbank financial firms. In some programs, the Fed purchases securities in affected markets directly. In other programs, the Fed makes loans to financial institutions or investors to intervene in affected markets; these loans are typically made on attractive terms to incentivize activity, including by shifting the credit risk to the Fed.

Many of these facilities are structured as Fed-controlled special purpose vehicles because of restrictions on the types of securities that the Fed can purchase. The Fed typically charges an interest rate that would be above-market in normal conditions and fees to compensate for risk. To varying degrees, the Fed is protected from losses by limiting eligibility to highly rated borrowers and requiring collateral to be pledged in case of default. Although there were no losses from these facilities after the 2008 financial crisis, assets from the Treasury’s [Exchange Stabilization Fund](#) (ESF) have been pledged to backstop any losses on several of the facilities today. [Title IV of the CARES Act](#) appropriated \$500 billion to the ESF, of which at least \$454 billion is available to support Fed programs. To date, \$215 billion has been pledged to these programs (see **Table 1**). The CARES Act places certain restrictions on the Fed programs, such as conflict of interests and oversight requirements.

Table I. Federal Reserve Emergency Programs
(billions of dollars)

	Announced-Size Limit	CARES Act Funds Pledged
CPFF	n/a	\$10
PDCF	n/a	\$0
MMLF	n/a	\$10
PMCCF/SMCCF	\$750	\$75
TALF	\$100	\$10
PPPLF	n/a	\$0
MSLP	\$600	\$75
MLF	\$500	\$35
Total	n/a	\$215

Source: Congressional Research Service.

Note: See text for details.

Author Information

Marc Labonte
Specialist in Macroeconomic Policy

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